

Negative Absorption in CBD & Southeast – Overall Office Market Holds Steady

MARKET OVERVIEW

The second quarter of 2016 marked two straight quarters of negative net absorption for Denver’s Central Business District. Multiple 50,000-square-foot spaces were vacated during the quarter contributing to the negative absorption. Additionally, total available sublease space throughout the metro market has reached its second highest total of the past ten years, suggesting the energy downturn may still have a noticeable, albeit minor impact on the office market. The resilience of the Denver office market has been apparent over the past year and a half; however, with negative absorption in the first half of 2016 and a slight drop in rental rates in the CBD and Southeast submarkets, a market correction may be on the horizon.

MARKET INDICATORS*

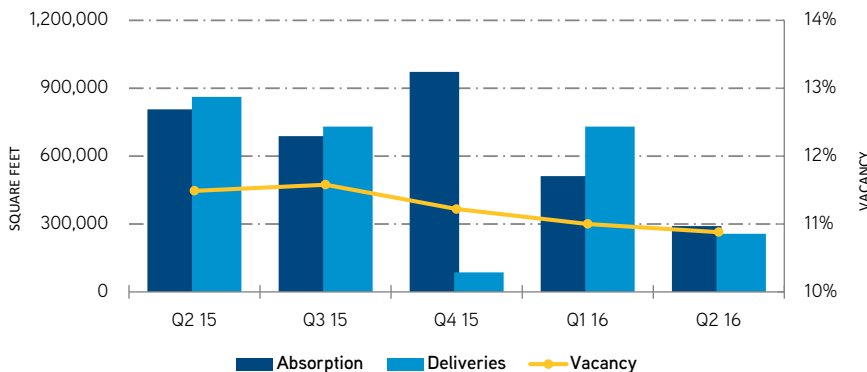
	Q2 2016	Projected Q3 2016
VACANCY	↓	↔
NET ABSORPTION	+	+
DELIVERIES	↑	↓
RENTAL RATE	↑	↑

*Arrows compare current quarter to the previous quarter's historically adjusted figures.

SUMMARY STATISTICS

	Q2 2015	Q2 2016
VACANCY RATE	11.5%	10.9%
ABSORPTION YTD	980,621 SF	800,894 SF
DELIVERIES YTD	883,271 SF	341,400 SF
UNDER CONSTRUCTION	3,317,157 SF	3,382,342 SF
ASKING RENTS/SF	\$24.60/SF	\$25.85/SF

Denver Office Market Q2 2015-Q2 2016



Source: CoStar, Colliers Research

HIGHLIGHTED ECONOMIC TRENDS

Local Unemployment Rates

As of **May 2016**, the Bureau of Labor Statistics indicated the estimated unemployment rate for the Metro Denver area at **3.3 percent** – holding steady from the previous month, and below the previous year’s unemployment rate of **3.7 percent** in **May 2015**. The National unemployment rate is **5.2 percent**.

Local Employment Growth

Metro Denver employment rose **2.9 percent**, or an additional **42,500 jobs** between **May 2015 and 2016**.

Investment Sales

Second quarter investment activity totaled over **\$500 million** throughout Metro Denver.

Overall metro absorption totaled a positive 290,658 square feet during the second quarter.

ABSORPTION

Overall second quarter absorption remained positive during the quarter with over 290,000 square feet of positive net absorption – reporting significantly less than the previous quarter’s total of over 500,000 square feet. Both of the metro’s top submarkets, the Southeast and CBD, reported negative absorption numbers, while the Northwest and West submarkets reported strong positive absorption numbers making up for vacated space in the metro’s most sought-after submarkets. Class A buildings accounted for nearly 132,000 square feet of negative net absorption during the quarter, while metro Class B buildings reported positive net absorption of 347,000, and Class C product experienced positive net absorption of 74,600 square feet, respectively.

VACANCY

Second quarter vacancy remained relatively stable decreasing by only one-tenth of a percentage point to 10.9 percent from 11.0 percent the previous quarter. Compared to the second quarter 2015, the overall vacancy rate has decreased 60 basis points from 11.5 percent. Total leasing activity increased slightly to 2.45 million square feet for the quarter – up from 2.41 million square feet during the previous quarter. Total available sublease space in the CBD has steadily been increasing since the end of 2014, and with projections for the price of oil to experience a long-term recovery, oil and gas and industry-related companies will likely continue to shed unnecessary space.

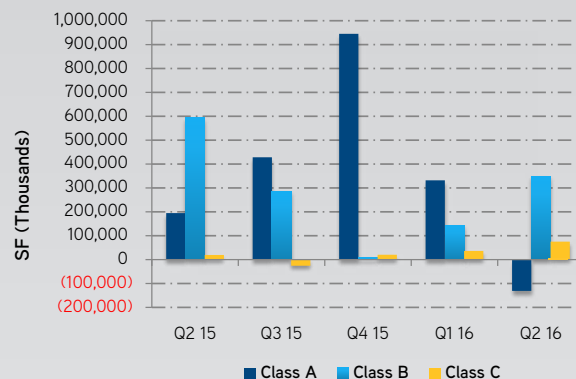
DELIVERIES & CONSTRUCTION

Deliveries during the second quarter more than doubled first quarter deliveries with over 256,000 square feet throughout four buildings. Of the nearly 3.4 million square feet currently under construction, approximately 54 percent is attributed to Downtown construction, with Class A projects like 1144 Fifteenth, 16 Chestnut, and 1401 Lawrence making up a majority of downtown construction. All three current construction projects in the Southeast submarket are Class A buildings totaling nearly 830,000 square feet.

RENTAL RATES

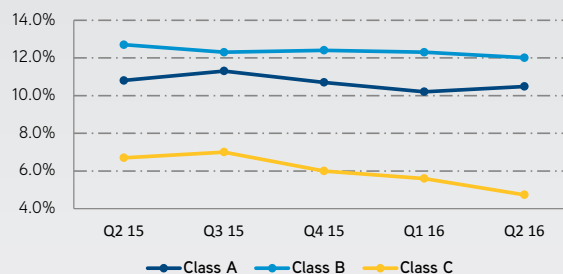
Overall direct asking rental rates continued its steady climb increasing to \$25.57 per square foot (full service) in the second quarter, a year-over-year increase of approximately 5.0 percent. While overall asking rates continue to increase, Class A rental rates appear to be reaching a tipping point, especially in the CBD and Southeast submarkets where asking rates decreased slightly from the previous quarter. Class B rental rates appreciated by nearly 7.0 percent year-over-year indicating an average asking rate of \$21.99 per square foot during the second quarter.

Absorption



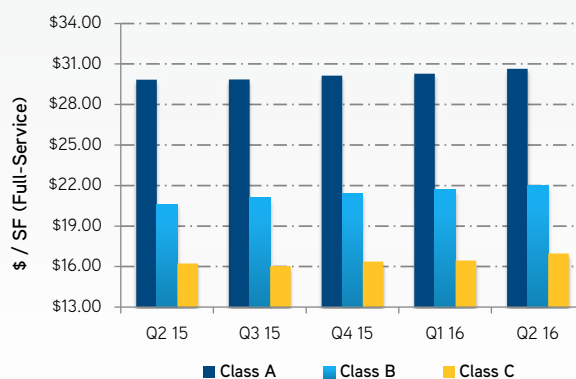
Source: CoStar, Colliers Research

Vacancy



Source: CoStar, Colliers Research

Rental Rates



Source: CoStar, Colliers Research

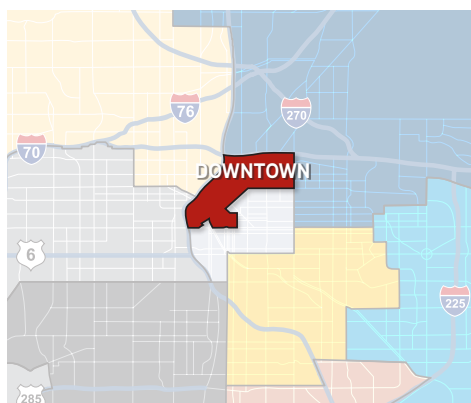
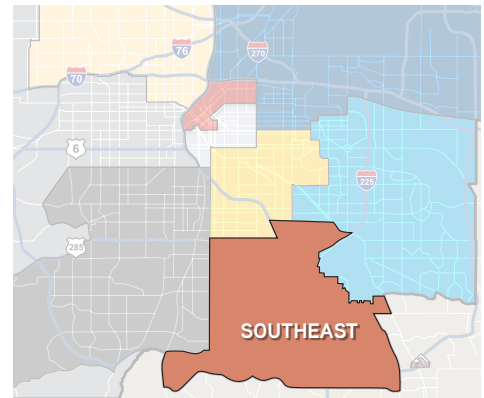
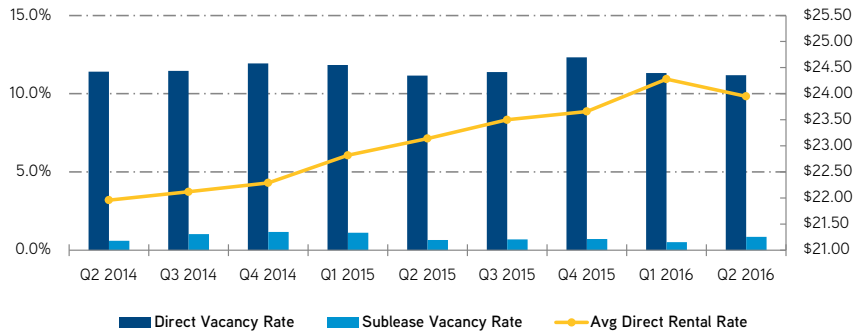
Submarket Statistics

Submarket/Class	Buildings	Total Inventory SF	Direct Vacancy Rate	Sublease Vacancy Rate	Vacancy Rate Current	Vacancy Rate Prior Qtr	Leasing Activity SF	Net Absorption Current Qtr SF	Net Absorption YTD SF	Deliveries Current Qtr SF	Deliveries YTD SF	Under Construction SF	Avg. Direct Rental Rate (SF)
EXISTING PROPERTIES							ACTIVITY	ABSORPTION	CONSTRUCTION			RENTS	
DOWNTOWN													
CENTRAL BUSINESS DISTRICT/LODO/CENTRAL PLATTE VALLEY													
A	53	22,269,994	11.8%	1.7%	13.5%	12.8%	797,614	(163,704)	(143,776)	-	-	1,756,887	\$35.67
B	134	11,324,117	8.4%	0.2%	8.7%	8.0%	270,031	(9,737)	(30,372)	66,000	66,000	53,478	\$29.95
C	23	1,382,284	3.8%	0.0%	3.8%	3.9%	4,807	1,208	(8,295)	-	-	-	\$25.25
Total	210	34,976,395	10.4%	1.1%	11.6%	10.9%	1,072,452	(172,233)	(182,443)	66,000	66,000	1,810,365	\$34.10
MIDTOWN													
SOUTH MIDTOWN/CAPITOL HILL													
A	6	1,111,860	0.5%	0.0%	0.5%	0.5%	15,901	0	(6,064)	-	-	-	\$24.39
B	49	3,171,374	4.2%	0.0%	4.2%	4.6%	23,801	12,695	(18,476)	-	-	300,000	\$22.53
C	39	1,608,036	2.7%	0.0%	2.7%	2.7%	1,534	49	3,823	-	-	-	\$19.87
Total	94	5,891,270	3.1%	0.0%	3.1%	3.3%	41,236	12,744	(20,717)	-	-	300,000	\$22.18
SUBURBAN													
AURORA													
A	13	1,921,923	5.0%	0.0%	5.0%	5.4%	0	7,079	5,901	-	-	-	\$24.10
B	79	5,376,506	10.8%	0.0%	10.8%	10.7%	30,604	(5,662)	(24,917)	-	-	-	\$18.38
C	16	561,515	8.3%	0.0%	8.3%	8.8%	2,642	3,004	5,806	-	-	-	\$12.08
Total	108	7,859,944	9.2%	0.0%	9.2%	9.3%	33,246	4,421	(13,210)	-	-	-	\$18.54
BROOMFIELD													
A	19	3,068,913	7.4%	0.9%	8.3%	11.3%	51,941	92,783	35,166	-	-	66,000	\$28.48
B	31	2,805,928	8.3%	0.9%	9.1%	9.5%	3,084	11,895	(11,224)	-	-	-	\$23.38
Total	50	5,874,841	7.8%	0.9%	8.7%	10.5%	55,025	104,678	23,942	-	-	66,000	\$26.70
COLORADO BOULEVARD/GLENDALE													
A	24	3,857,821	11.3%	0.4%	11.7%	10.4%	43,607	(48,476)	(78,832)	-	-	232,444	\$29.84
B	94	6,867,909	10.5%	0.1%	10.6%	11.0%	93,251	26,895	67,648	-	-	-	\$22.71
C	22	711,601	3.0%	0.0%	3.0%	3.3%	3,091	1,944	2,718	-	-	-	\$15.64
Total	140	11,437,331	10.3%	0.2%	10.5%	10.3%	139,949	(19,637)	(8,466)	-	-	232,444	\$25.65
NORTH/NORTHEAST													
A	11	1,262,956	3.8%	0.4%	4.2%	4.3%	-	41,400	45,496	41,400	41,400	-	\$23.69
B	72	5,162,279	7.6%	0.0%	7.6%	7.8%	45,652	14,717	68,887	-	53,000	30,000	\$19.49
C	17	1,656,292	5.2%	0.0%	5.2%	6.5%	4,591	20,432	64,704	-	-	-	\$19.17
Total	100	8,081,527	6.5%	0.1%	6.6%	7.0%	50,243	76,549	179,087	41,400	94,400	30,000	\$19.93
NORTHWEST													
A	20	2,037,040	10.5%	0.0%	10.5%	13.4%	12,009	59,863	49,873	-	-	-	\$24.73
B	85	3,906,373	11.4%	0.4%	11.8%	13.4%	16,598	61,041	51,802	-	-	-	\$20.21
C	18	538,138	3.8%	0.3%	4.1%	9.5%	2,422	28,848	30,535	-	-	-	\$20.18
Total	123	6,481,551	10.5%	0.3%	10.8%	13.1%	31,029	149,752	132,210	-	-	-	\$21.37
SOUTHEAST													
A	141	22,201,332	8.7%	1.1%	9.8%	9.1%	526,640	(115,595)	326,499	22,000	22,000	829,533	\$26.53
B	300	19,369,629	14.4%	0.6%	15.0%	15.2%	292,747	52,795	128,812	-	-	-	\$21.61
C	33	1,138,541	6.2%	0.1%	6.2%	6.2%	6,256	(416)	(6,509)	-	-	-	\$15.90
Total	474	42,709,502	11.2%	0.8%	12.0%	11.8%	825,643	(63,216)	448,802	22,000	22,000	829,533	\$23.95
SOUTHWEST													
A	6	1,359,634	3.7%	1.4%	5.0%	5.0%	-	-	-	-	-	-	\$26.44
B	100	5,051,866	16.0%	0.2%	16.1%	17.1%	87,194	48,452	73,894	-	-	25,000	\$17.45
C	20	693,785	6.5%	0.0%	6.5%	6.8%	10,750	1,929	381	-	-	-	\$12.04
Total	126	7,105,285	12.7%	0.4%	13.1%	13.8%	97,944	50,381	74,275	-	-	25,000	\$18.09
WEST													
A	18	2,420,470	5.4%	0.0%	5.4%	5.2%	17,877	(4,741)	(33,879)	-	-	65,000	\$27.32
B	132	7,848,723	15.9%	0.2%	16.1%	16.4%	89,409	134,338	183,443	127,000	159,000	24,000	\$21.11
C	25	712,117	5.2%	0.0%	5.2%	7.7%	4,386	17,622	17,850	-	-	-	\$12.87
Total	175	10,981,310	12.9%	0.2%	13.0%	13.4%	111,672	147,219	167,414	127,000	159,000	89,000	\$21.83
SUBURBAN TOTAL													
A	252	38,130,089	8.2%	0.8%	9.0%	8.9%	652,074	32,313	350,224	63,400	63,400	1,192,977	\$27.09
B	893	56,389,213	12.8%	0.3%	13.1%	13.5%	658,539	344,471	538,345	127,000	212,000	79,000	\$20.79
C	151	6,011,989	5.4%	0.0%	5.5%	6.7%	34,138	73,363	115,485	-	-	-	\$15.57
Total	1,296	100,531,291	10.6%	0.5%	11.1%	11.4%	1,344,751	450,147	1,004,054	190,400	275,400	1,271,977	\$22.94
DENVER MARKET GRAND TOTAL													
A	311	61,511,943	9.4%	1.1%	10.5%	10.2%	1,465,589	(131,391)	200,384	63,400	63,400	2,949,864	\$30.65
B	1,076	70,884,704	11.7%	0.3%	12.0%	12.3%	952,371	347,429	489,497	193,000	278,000	432,478	\$21.99
C	213	9,002,309	4.7%	0.0%	4.7%	5.6%	40,479	74,620	111,013	-	-	-	\$16.97
Total	1,600	141,398,956	10.2%	0.6%	10.9%	10.9%	2,458,439	290,658	800,894	256,400	342,825	3,382,342	\$25.84
QUARTERLY COMPARISON													
Q2 16	1,600	141,398,956	10.2%	0.6%	10.9%	11.0%	2,458,439	290,658	800,894	256,400	342,825	3,382,342	\$25.85
Q1 16	1,599	141,142,556	10.4%	0.6%	11.0%	11.2%	2,411,962	511,661	511,661	86,425	86,425	3,252,707	\$25.51
Q4 15	1,597	141,056,131	10.6%	0.6%	11.2%	11.6%	3,577,159	971,954	2,640,318	730,049	2,008,704	2,776,666	\$25.22
Q3 15	1,596	140,326,082	10.9%	0.6%	11.6%	11.5%	3,041,627	687,743	1,668,364	861,196	1,278,655	2,404,125	\$24.87
Q2 15	1,590	139,464,886	10.9%	0.6%	11.5%	12.1%	3,813,094	806,819	980,621	395,384	417,459	3,317,157	\$24.60

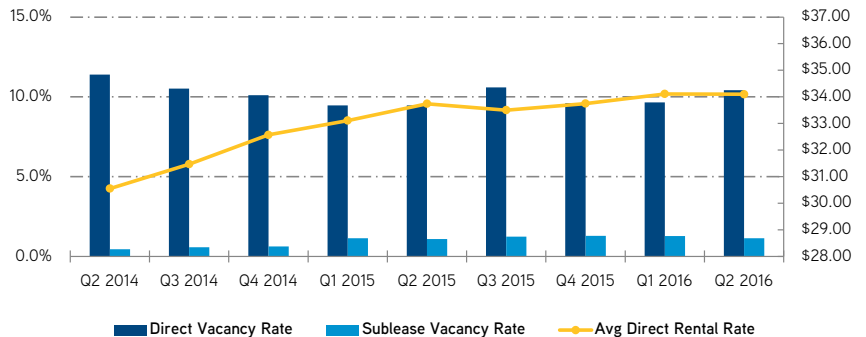
Southeast & Downtown Statistics

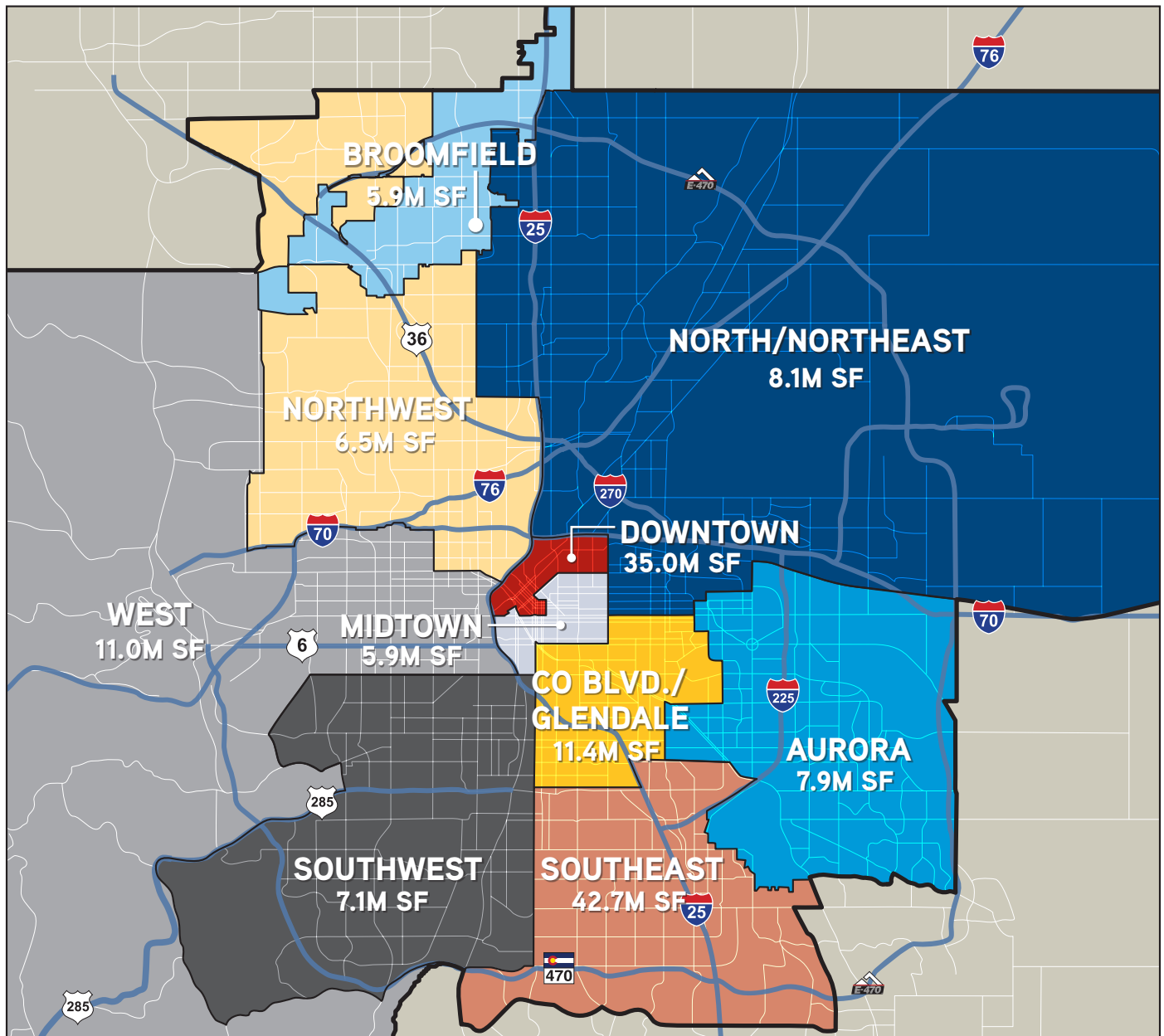
Period/Class	Buildings	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacant SF	Vacancy Rate Current	Leasing Activity SF	Net Absorption Current Qtr. SF	Deliveries Current Qtr. SF	Average Rental Rate (F5)
EXISTING PROPERTIES				VACANCY				ACTIVITY	ABSORP.	CONSTR.	RENTS	
DENVER-SOUTHEAST OFFICE MARKET OVERVIEW												
Q2 2016	474	42,709,502	4,774,163	11.2%	362,557	0.8%	5,136,720	12.0%	825,643	(63,216)	22,000	\$23.95
Q1 2016	473	42,683,043	4,829,976	11.3%	221,528	0.5%	5,051,504	11.8%	807,244	512,018	0	\$24.28
Q4 2015	473	42,683,043	5,260,852	12.3%	302,670	0.7%	5,563,522	13.0%	1,260,261	100,235	582,787	\$23.66
Q3 2015	470	42,099,786	4,790,399	11.4%	290,101	0.7%	5,080,500	12.1%	1,007,708	(105,647)	0	\$23.50
Q2 2015	470	42,099,786	4,698,869	11.2%	275,984	0.7%	4,974,853	11.8%	1,545,376	512,294	45,000	\$23.14
Q1 2015	469	42,054,786	4,975,511	11.8%	466,636	1.1%	5,442,147	12.9%	1,116,198	69,116	22,075	\$22.82
Q4 2014	469	42,054,786	5,020,765	11.9%	490,498	1.2%	5,511,263	13.1%	1,237,318	(225,960)	36,000	\$22.29
Q3 2014	468	42,018,786	4,815,306	11.5%	433,997	1.0%	5,249,303	12.5%	1,283,003	130,450	375,000	\$22.12
Q2 2014	466	41,643,786	4,752,080	11.4%	252,673	0.6%	5,004,753	12.0%	1,192,898	(29,470)	22,285	\$21.96
DENVER-SOUTHEAST OFFICE SUBMARKET BREAKOUT BY CLASS												
A	141	22,201,332	1,924,056	8.7%	240,713	1.1%	2,164,769	9.8%	526,640	(115,595)	22,000	\$26.53
B	300	19,369,629	2,779,698	14.4%	121,194	0.6%	2,900,892	15.0%	292,747	52,795	0	\$21.61
C	33	1,138,541	70,409	6.2%	650	0.1%	71,059	6.2%	6,256	(416)	0	\$15.90
Total	474	42,709,502	4,774,163	11.2%	362,557	0.8%	5,136,720	12.0%	825,643	(63,216)	22,000	\$23.95
DENVER-DOWNTOWN OFFICE SUBMARKET OVERVIEW												
Q2 2016	210	34,976,395	3,644,593	10.4%	399,222	1.1%	4,043,815	11.6%	1,072,452	(172,233)	66,000	\$34.10
Q1 2016	210	35,003,097	3,377,637	9.6%	446,408	1.3%	3,824,045	10.9%	481,079	(10,210)	0	\$34.11
Q4 2015	210	35,003,097	3,362,522	9.6%	451,313	1.3%	3,813,835	10.9%	1,313,166	342,744	46,000	\$33.75
Q3 2015	210	34,987,497	3,708,339	10.6%	432,640	1.2%	4,140,979	11.8%	1,075,840	107,812	622,106	\$33.50
Q2 2015	207	34,365,391	3,252,944	9.5%	373,741	1.1%	3,626,685	10.6%	930,378	89,933	81,834	\$33.74
Q1 2015	206	34,284,007	3,243,380	9.5%	391,854	1.1%	3,635,234	10.6%	846,822	43,758	0	\$33.11
Q4 2014	206	34,284,007	3,463,153	10.1%	215,839	0.6%	3,678,992	10.7%	996,570	230,113	123,000	\$32.57
Q3 2014	205	34,161,007	3,591,160	10.5%	194,945	0.6%	3,786,105	11.1%	894,286	421,626	185,000	\$31.47
Q2 2014	203	33,976,007	3,870,498	11.4%	152,233	0.4%	4,022,731	11.8%	678,847	79,909	112,552	\$30.55
DENVER-DOWNTOWN OFFICE SUBMARKET BREAKOUT BY CLASS												
A	53	22,269,994	2,637,979	11.8%	372,396	1.7%	3,010,375	13.5%	797,614	(163,704)	0	\$35.67
B	134	11,324,117	954,005	8.4%	26,826	0.2%	980,831	8.7%	270,031	(9,737)	66,000	\$29.95
C	23	1,382,284	52,609	3.8%	0	0.0%	52,609	3.8%	4,807	1,208	0	\$25.25
Total	210	34,976,395	3,644,593	10.4%	399,222	1.1%	4,043,815	11.6%	1,072,452	(172,233)	66,000	\$34.10

Denver | Southeast Office Market Q2 2014-Q2 2016



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SIGNIFICANT RECENT TRANSACTIONS

SALES ACTIVITY

PROPERTY	SUBMARKET	SALE PRICE	SIZE SF	BUYER	SELLER
Stanford Place I	Southeast Denver	\$43,250,000	273,963	Accesso Partners	Broadreach Capital Partners
United Western Financial Plaza	Central Business District	\$32,000,000	180,702	Blackstone Group	Toma West

LEASING ACTIVITY

PROPERTY	SUBMARKET	BLDG. CLASS	LEASED SF	COMPANY
1670 Broadway	Central Business District	A	346,000	TIAA (renewal)
7250 S. Havana Street	Inverness	A	211,000	Comcast

554 offices in 66 countries on 6 continents

United States: **153**

Canada: **34**

Latin America: **24**

Asia Pacific: **231**

EMEA: **112**

\$2.5

billion in
annual revenue

2.0

billion square feet
under management

16,000

professionals
and staff

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